

# Chart of Accounts Project

## Executive Summary

February 9, 2006

### **Background**

The Office of Financial Management (OFM) establishes the structure and the mandatory statewide codes of the state's chart of accounts. The current chart of accounts structure has been in place since the Agency Financial Reporting System (AFRS) was implemented in 1982.

During the last couple of years, the state has undertaken a number of major initiatives, including Civil Service Reform, *Roadmap for Financial and Administrative Policies, Processes, and Systems*, Priorities of Government, and Government Management, Accountability and Performance. These initiatives focus on improving management systems, streamlining business processes and policies and strengthening service delivery and accountability both within state agencies and across state government. In light of the impact of these initiatives, we felt a need to reassess the design of the state's chart of accounts.

Through the Chart of Accounts Project, OFM reviewed how state agencies use the chart of accounts. This project focused on understanding the strengths and weaknesses of the current chart of accounts and developing recommendations for a chart of accounts that satisfies GAAP, budgetary, and management decision support requirements.

The Chart of Accounts Project workgroup consisted of a core OFM team (5) and a virtual project team (322+) consisting of budget and accounting line staff, managers and directors from across the state.

### **Findings from stakeholders**

Over 110 people participated in either a survey or detailed interview about the chart of accounts. Here are the key themes:

- Chart of accounts flexibility was very important to agencies.
- Developing data for the Priorities of Government process and the activity inventory is an issue, often a burdensome one, for many agencies and needs to be addressed.
- Some of the chart of account inconsistencies between agencies or within individual agencies could possibly be corrected through training and process improvements.
- There appears to be a direct correlation between statewide system costs and chart of accounts design for many agencies, particularly medium to smaller sized agencies.
- With the exception of a budget activity field, adding any other new fields without undertaking a detailed analysis of business processes, would likely add little value

and could result in more inconsistency within or between agencies rather than less.

- Weaknesses in federal revenue and expenditure reporting may result from how the current chart of accounts elements are or are not used, rather than the chart of accounts design.
- Strengthening existing policies or establishing new statewide policies may address inconsistent agency or statewide reporting related to revenue recognition and expenditure recovery.
- Establishing best practices around how agencies utilize existing chart of account fields for contract, grant, project and purchase processes would strengthen financial reporting and promote statewide consistency.

### **Other State Interviews**

From an initial list of thirteen states, only four agreed to be interviewed. The responses of those four provided the following information related to an enterprise chart of accounts: central control is critical, users must be well trained on how to use the chart of accounts, and executive management must sponsor it.

### **Key Issues**

The Chart of Accounts Project team summarized the key issues raised by stakeholders, proposed draft alternative solutions for each issue, and sent the alternatives to the virtual team for feedback.

### **Issues**

- Should the state adopt a different funding model for AFRS?
- How can the state modify the Chart of Accounts and/or AFRS system to support accounting by budget activity?
- Should the state establish descriptions for revenue source titles?
- Should the state strengthen policies supporting expenditure recoveries?
- How could the state modify the Chart of Accounts and/or AFRS system to better support agency contract, project, and grant management activities?
- Could the state achieve more complete and accurate enterprise information by mandating the use of more Chart of Accounts elements?

### **Final Recommendations**

After reviewing input from all the stakeholders, the Chart of Accounts team recommends that the chart of accounts remain as is with a few minor enhancements. Our conclusions and recommendations are as follows:

- Retain all of the existing Chart of Accounts elements.

- Use the *Roadmap*-related business analysis efforts to confirm information needs for grant, contract, and project management processes. This Chart of Accounts study indicated that there is likely to be sufficient capacity within the current system to accommodate any additional information needs. State policies, processes, and systems would need to be updated to support any ultimate chart of account changes.
- Develop more descriptive revenue source titles and definitions in the State Administrative and Accounting Manual (SAAM). OFM Statewide Accounting will lead this effort.
- Continue to explore options that allow for reporting actual expenditures by budget activity. The most feasible options at this time appear to be approaches that would use some kind of program index/activity crosswalk to produce activity reports outside of AFRS. This project did not find it currently feasible to require expenditure transactions to be recorded by activity either at a detailed or summary level. OFM will continue to research options.
- Consider adding a new sub object for expenditure recoveries, if further analysis concludes this would mitigate problems posed by the current approach. OFM Statewide Accounting will continue to research.
- While it would be feasible to establish a new sub object, or to set aside sub-sub objects, for state purposes in order to support SmartBuy or other enterprise initiatives, such Chart of Accounts changes should be made only if a business case can be made to support such a change. At this time, this is not the preferred approach for tracking detailed purchasing information.